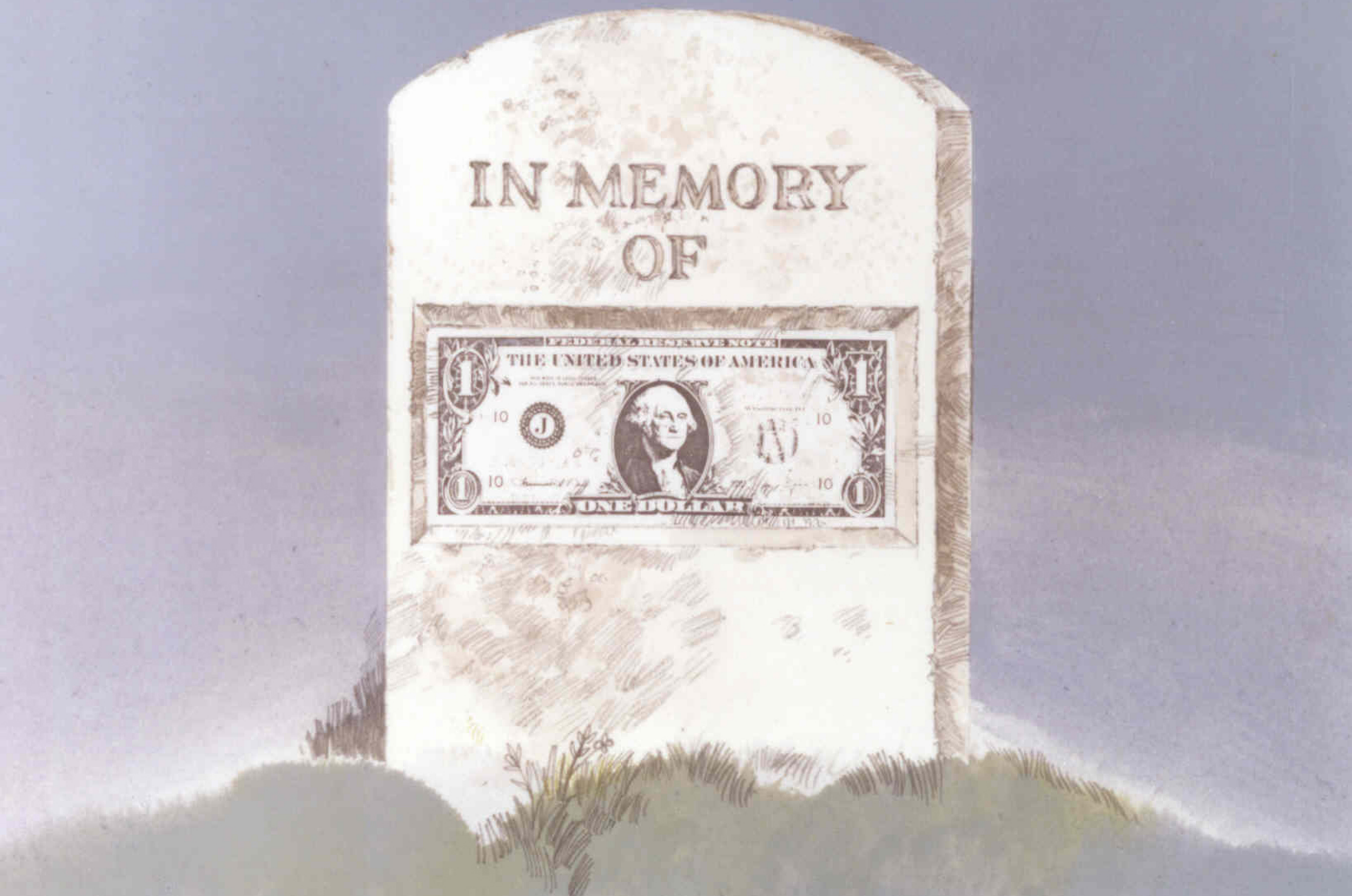
THE INFLATION SWINDLE



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First You Get the Money

Everyone is familiar with Lord Action's famous words: "Power tends to corrupt, and absolute power corrupts absolutely." While it's true that political power grows from the barrel of a gun, in semi-civilized societies (such as the United States), a more subtle tool is at the heart of power: money.

Only a small fraction of the population has any clue at all as to the part money has played in reversing the roles of American citizens and their government. Government is no longer a servant of the people. The people are, and have long been, servants of the government. Or, in more candid terms, the people are servants of the politicians whom they vote into office.

The Shoemaker and the Hatmaker

Early men bartered with one another for goods and services — i.e., one man would give another man his product in exchange for a product or service he desired as payment. To say the least, this was a rather cumbersome way to do business.

The advent of money simplified this bartering process. The purpose of money was, and is, to facilitate exchange. Men could now exchange their goods and services for money, then use that money at a later date in exchange for other goods and services.

Since the beginning of civilization, almost anything one can think of has been used as money at one time or another. In earlier times, this included such items as ornaments, weapons, horses, hunting knives, and even wives. As civilization advanced, mining brought metals to the fore, with gold and silver (especially gold) eventually emerging as the most desirable forms of money.

Gold and silver were durable, easily transportable, subject to precise division by weight, and scarce enough that they could not be obtained in great quantities without considerable effort. In other words, gold and silver were not arbitrarily chosen. They survived the test of supply and demand over the centuries.

Money, then, is not wealth. It is nothing more than a commodity. But it has one great distinguishing feature: It is highly acceptable to most people as a medium of exchange. And in order for people to accept a commodity in exchange for goods and services, they must have confidence that others will, in turn, accept it from them in exchange for things they subsequently will want to acquire.

There are basically three kinds of money:

One is "commodity money," which I have just described — a commodity (such as gold) that is in demand because of its durability, transportability, and so forth, and which usually also has a utilitarian use (e.g., for manufacturing or ornamentation).

A second kind of money is “credit money.” Essentially, this is an IOU in exchange for something of value — the promise to pay for the item at a later date.

Finally, there is “fiat money” — anything that a government, unilaterally and arbitrarily, decrees to be money. The normal way that fiat money comes into use is for a government simply to print pieces of paper and proclaim them to be “legal tender,” with complete disregard to the factors that have historically made money acceptable to people as a means of exchange.

So, what does all this mean in actual practice?

Let’s say that a shoemaker has made one pair of shoes and a hatmaker has made one hat. The shoemaker needs a hat, but the hatmaker does not need a pair of shoes. Assuming there is no government fiat money involved, there are two ways these men can trade with one another.

The shoemaker can give the hatmaker an amount of gold or silver (or some other commodity acceptable to the hatmaker) that the hatmaker feels is adequate compensation for his investment of time, labor, and materials. He must, however, feel confident that he will be able to use the commodity he receives to buy something which he believes to be of equal value.

The other possibility is for the shoemaker to give the hatmaker an IOU, promising to repay him with a specified product, service, or commodity at some specified later date. The hatmaker’s willingness to accept the shoemaker’s IOU will depend on his faith in the shoemaker’s ability to make good on his obligation.

Taking a Cue from Karl Marx

For many centuries, there existed well-established private coin minters. People would bring their gold to a private minter of high repute, who would then form the gold into coins and stamp them with its official seal (which included a guaranteed designated weight). For this service, the minter would charge a fee, as would any other service business.

It is important to point out that in different countries various terms were used for certain designated gold weights. The word *dollar* came to be used in America for 1/20th of an ounce of gold. Thus, the dollar was not money; it was simply the name given to a certain quantity of gold. Other countries used words like *franc* and *mark* to describe various weights of gold.

Gold warehouses came into existence to accommodate people who did not want to be burdened with carrying gold around to make their purchases. Like the warehouser of any other product, the operator of a gold-storage facility would agree to store someone’s gold for a set fee and would give the owner of the gold a receipt for his merchandise. Whenever the owner desired to redeem his gold, he would simply bring in his receipt and the warehouse keeper would hand it over to him.

These early warehouses were the first "banks." Their deposits were gold, and the receipts they gave to the gold's owners could be used as a substitute for money in most transactions. The receipts were acceptable to the sellers of goods and services to the degree that the sellers had faith in the integrity of the warehouse keeper — i.e., to the degree they believed the receipts could be converted into gold on demand.

But private minters and warehousers were a problem for governments. Throughout history governments have known that the most essential step toward gaining control over their people was to establish monopolistic control of their countries' money systems, and that the existence of private minters and warehousers stood in the way of that objective.

Karl Marx, in *The Communist Manifesto*, made this very clear when he said that one of the most important aspects of achieving control is "centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly."

Until a government can eliminate private minters and gold warehousers, it cannot use the money system to achieve the kind of control made possible through a monopoly. In the United States, the government has accomplished this by following the same pattern of "creeping-control" it has used in all other areas of our lives.

The first step toward this ultimate goal was Article I, Section VIII, Clause V of the Constitution, which allowed Congress "to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." So as early 1789, just thirteen years after the Colonies had had overthrown the British, new power seekers were beginning to take control.

This is one of the earliest indications of how men of power would operate under the experimental republic set up by our Founding Fathers. Their strategy would be to achieve control gradually, over a long period of time.

The new government recognized that the rugged colonial individualists were too independent to tolerate overt tyranny. So Article I, Section VIII, Clause V was a subtle way to open the door for the government's entrance into the money business — a seemingly harmless act. But keep in mind that this first step only allowed government to *compete* with other minters and warehousers.

Whose Money Is It Anyway?

It took government nearly seventy-five years to take the next significant step in gaining a chokehold on the nation's money supply. That step was the enactment of the National Bank Act of 1863, which, in effect, outlawed its competition.

It's a classic example of how the passage of time can be used to make people lose sight of what has actually taken place. Few, if any, of the citizens who saw government pass an arbitrary law in 1789, allowing it merely to compete in the

money business, were around to see it take monopolistic control of the entire system in the mid-1800s.

Americans were distrustful of government just after the Revolutionary War, but by the middle of the next century, government involvement in many areas — including the country's money system — had come to be accepted as normal. *This* is the power of gradualism.

It is important to note that even though government outlawed its competition and took full control of the money system, it did not try to change the system itself for more than a half-century. The term *dollar* continued to mean 1/20th of an ounce of gold, and the United States remained on a fairly strict gold standard until 1914.

People had been taking their gold to government banks for years, receiving either minted gold coins or gold receipts in return. As time passed, however, it became less common to keep gold and more common to use gold "receipts" as money, simply because it was not practical to carry around gold.

Again, the passage of time worked wonders for the power holders in Washington. Persuaded by the government to keep their gold safely on deposit with banks, people erroneously began to refer to the gold receipts as "dollars." This clever transition in semantics became very important in later government monetary schemes.

The receipts, of course, were *not* dollars. They were receipts for a specified weight of gold, that weight being defined as a dollar-weight (1/20th of an ounce of gold). The slowly evolving practice of referring to government gold receipts as dollars was a subtle maneuver by government that was critical to the completion of its long-term inflation swindle.

Which brings us to December 23, 1913, a day of financial infamy for our country. On that day, government passed the Federal Reserve Act, which provided for "the establishment of Federal Reserve Banks," gave government the power to print "notes" (which it referred to as "currency"), established a system for "member banks" to exchange their gold deposits for government "currency," and a long list of other measures that pretty much gave government carte blanche to do as it pleased with the money system.

From that point on, banks encouraged people to accept government "currency" when they wished to withdraw their money, assuring the public that its gold was safer in the hands of the government. Gold, after all, was "old-fashioned." Government paper currency became the "reserves" of member banks, while the Federal Reserve Bank retained everyone's gold. How's *that* for a slick maneuver brought about through the magic of gradualism?

Since then, of course, the public has been fed a continual diet of government propaganda about the need for a Federal Reserve System. (I wonder how we got along so nicely — and freely — before 1913?) Given the facts, it is humorous, yet disheartening, that so many college professors teach students that the Federal Reserve System is necessary to prevent panic and disorder in banking. Few seem to

realize that the Federal Reserve was established sixteen years *before* the great crash of 1929!

It's true that the Federal Reserve Act put government in a position to prevent "runs" on banks. But that is not protection; it's *aggression*. If people flock to banks to withdraw their money, it's because they have lost faith in those banks. It means that they want their money back! All the Federal Reserve Act did was guarantee that government would use force to prevent people from getting back their own property.

Common sense tells one that if private banks were allowed to exist, they would rarely experience "runs" because they would know that if one bank failed, it would be bad for the entire banking industry. Therefore, not only would they be forced by the free market to operate prudently in handling depositors' money, they also would be apt to bail each other out simply because it would be in their best interest to do so.

Isn't it remarkable how self-interest and the free market combine to protect people better than any government scheme ever concocted?

Fooling Everyone but the Experts

Having taken firm control of the country's money reins, the U.S. government did not wait long to make its next major move. In 1917, it set the minimum reserves that a member bank had to keep on deposit with the central bank at 10 percent. The 10 percent was retained by the Federal Reserve in gold, but the reserve ratio meant that banks could loan out ten times as much in paper money ("notes," "currency," etc.) as they actually had on deposit in gold.

In other words, 90 percent of the receipts that banks could loan out were fraudulent! (Keep in mind that Federal Reserve notes, or "dollars," technically were only receipts for gold owned by others.)

The government arbitrarily printed these receipts and allowed member banks to lend them to unsuspecting individuals as though they were money. People, in effect, were paying interest on counterfeit receipts — receipts for gold that did not exist. The evolution toward paper money was in full swing.

The next big step in the debauchment of our money supply was when the government, in the early 1930s, abandoned the gold standard. Gold receipts (which by this time were referred to by everyone as dollars) could no longer be redeemed for gold. In addition, the government stopped printing gold receipts altogether and replaced them with "Federal Reserve notes."

Again, government passed a law, this one forcing people to recognize Federal Reserve notes as "legal tender." Citizens had no choice but to accept pieces of paper — fiat currency — as the legal money to be used in all transactions.

The reason a government goes off the gold standard is that it allows it to increase the supply of paper money more easily. People become confused, because there is no way to judge the value of paper money.

But financial experts are not confused. As soon as the U.S. went off the gold standard, the price of gold in the open market zoomed upward. The experts realized that gold was far more valuable than paper money.

In less than 150 years, consider what had taken place:

1. Government entered the money business, in competition with other minters and warehousers.
2. Government outlawed all competitors and claimed a monopoly on the country's money system.
3. Government established a so-called Federal Reserve System which, among other things, gave it the power to hold everyone's gold in its vaults and issue receipts far in excess of the value of the gold it had on deposit.
4. Finally, government made it illegal for people to get their own gold back and declared paper money (as opposed to receipts for gold) to be the legally recognized money of the United States.

It was the most protracted theft in history, and a superb example of the power of gradualism. It had taken one hundred and fifty years for government to complete the appropriation of the American people's gold, and from that point on it was in a position to speed things up considerably. The United States government now had all the gold; it could print paper money at will; and it was in total control of the money system.

The True Cause of Inflation

Almost immediately after going off the gold standard, the government "devalued" the country's currency by about 40 percent. It is significant to point this out, because a devaluation is an admission of bankruptcy. What the government was telling foreign countries (who, unlike American citizens, still had the right to redeem dollars for gold) was that each receipt they held was now worth only 60 percent of the amount of gold it originally had promised.

A devaluation, however, is always couched in terms designed to make people believe that the government has performed some sort of fiscal miracle. What, in fact, it has done is announced that it is reneging on its debts.

But nations are far more powerful than individuals, and they do not take kindly to the news that the pieces of paper they are holding are counterfeit. As a result, countries holding large quantities of U.S. dollars began to cash them in — creating a sort of international "run" on the central bank.

Out of desperation, Richard Nixon, on August 15, 1971, threw in the towel and, in effect, admitted to more than a hundred years of fraud by refusing to allow foreign governments to cash in their dollars for gold. From that point on, no one — not even

foreign governments — could redeem U.S. currency for gold. The U.S. had become a 100 percent paper-money country.

To rub salt in the wounds of American citizens, the government now sells our gold from time to time in the open market. It's come a long way since entering the game as just another competitor — forcing everyone else out of the business, stealing billions of dollars in gold through outright fraud, and, finally, turning around and selling that same gold to the very people from whom it was stolen.

The legendary investment advisor Harry D. Schultz once it summed it up this way: "[The sale of Treasury gold is] a crime against the people of the U.S. [It is] illegal, immoral, and unconstitutional. The U.S. will grow weaker as the backing for its currency is sent overseas, and other countries will grow stronger." Remarkably, Schultz made these statements more than thirty years ago.

Unfortunately, the government's galling gold theft is only a small part of the overall inflation swindle. Everyone wants the president to fight inflation. Everyone agrees it is a big problem. And everyone supports government officials who stride forward on their white chargers vowing to "fight" inflation.

There is only one problem with all this: The vast majority of people who pledge their support to inflation-fighting politicians and decry its ravaging effects have absolutely no idea what inflation is, let alone what causes it. And, almost without exception, the politician who gains public support for his "inflation-fighting" measures proposes actions that will actually make inflation *worse*.

If you understand and remember only one thing from this report, it should be this: Increased wages and prices *do not cause inflation*. In fact, they do not even contribute to it. Inflation is caused by only one thing: an increase in the supply of money. And it is this increase in the money supply that, in turn, *causes* wages and prices to increase. In other words, wage and price increases are a *result* of inflation.

(Note: In a truly free market, prices could also rise when demand exceeded supply, but such rises would be natural and would not involve fraud. Market prices will always adjust to the ratio of supply and demand — which is a *good* thing.)

What this means is that virtually everything politicians, a majority of economists, and most members of the media tell Americans about inflation is not only false, but the exact opposite of the truth. Big business does not cause inflation. Big labor does not cause inflation. It is Big Brother who causes inflation, and he is the *only* cause. He accomplishes it through the printing of paper money, and he is the only one who has the legal power to do so.

I guess I should go one step further and correct my own definition of inflation. I said it is *caused* by an increase in the supply of money. Technically speaking, inflation *is* an increase in the supply of money. To get even more technical, it is actually an increase in the supply of money *substitutes*.

Just as government cleverly succeeded in getting people to call gold receipts dollars, which led to later generations believing that the receipts themselves, rather than the gold they represented, were money, so, too, did government succeed in getting people to refer to an increase in prices as "inflation." This, in turn, took people's attention off of *real* inflation: government's printing of fiat paper money.

Thus, when most people talk about inflation, they use a misnomer. What they are really referring to is higher prices. It also would be technically correct to refer to an increase in prices as "*price* inflation."

Buying into the Con

When government puts out propaganda about the "inflation rate," it is really talking about the "consumer price index." But the consumer price index is misleading because it covers the prices of only a few hundred items out of thousands, and many of those thousands (that are not included) may play a bigger role in your life than in the life of someone else.

More important, however, is that the so-called inflation rate does not tell you the rate of inflation at all. As previously noted, the rate of inflation is the rate at which government increases the supply of paper money. But by referring to an increase in the consumer price index as the inflation rate, government avoids discussing its fraudulent increase of the paper-money supply.

Why is this little game of government-engineered semantics so important? Because it confuses almost everyone, so much so that the vast majority of the population does not understand the true cause of rising prices. And it is rising prices that people are concerned with — i.e., they are concerned with the *result* of inflation.

If most people understood that it is the inflation of paper currency that artificially increases prices, they undoubtedly would revolt against the government's reckless printing of money. Which is why the semantics charade — and the resulting confusion — is so important to the government.

So long as people can be led to accept false explanations of what causes prices to rise, they can be made to believe in false solutions. Which gives de facto power to politicians, because it is they who peddle the false solutions to increase their own power.

Why do prices rise when government prints too much money? Again, money is not wealth; money is only a medium of exchange. Wealth is television sets, automobiles, and whatever else you exchange the money medium for. Wealth can be produced only by labor. Today's money, however, is produced by simply printing pieces of paper.

The result is that when the Federal Reserve prints money faster than people can produce wealth (products and services), the ratio between available money and available products and services increases. The supply of money, increasing faster

than the production of goods and services, increases the demand for the available goods and services, which, per the law of supply and demand, stimulates prices to rise.

And the one thing of which you can be certain is that the printing presses are going to have to roll faster than ever in the future in order to meet the outrageous promises made to false-prosperity addicted voters by the progressives who now hold the reins of power in Washington.

The Shoemaker and the Hatmaker, Revisited

Now it's time to get back to the shoemaker and the hatmaker I discussed earlier. As you will recall, the shoemaker gave the hatmaker an IOU for the hat he purchased. The hatmaker accepted the IOU, because he believed the shoemaker to be creditworthy. He felt confident he could use the shoemaker's IOU to purchase another product from someone else or, if he later decided he needed some shoes, that he could redeem the IOU for a pair of shoes directly from the shoemaker.

In the meantime, however, two things have occurred, and the hatmaker is unaware of both of them. First, the shoemaker has stopped making shoes. In other words, he has ceased to produce wealth. Second, he has discovered that he can persuade other people to accept his IOUs, which has motivated him to go on a spending spree.

The shoemaker has passed out an additional ninety-nine IOUs since he gave that first IOU to the hatmaker. None of those hundred people realizes, however, that the IOU he holds is just one of a hundred in existence. Hence, each person believes that his IOU is "as good as gold" (i.e., as good as the pair of shoes behind it).

The problem arises when each of the one hundred people goes out and tries to spend his IOU. Merchants, sensing the sudden increase in the demand for their goods, raise their prices. Due to the shoemaker's creation of excess IOUs, the hatmaker, who accepted the shoemaker's original IOU in good faith, theoretically has had the value of the IOU he holds reduced by 99 percent.

To compound the problem, sellers of goods, realizing that an excess of IOUs has been distributed by the shoemaker, become leery of the value of his IOUs. As a result, they raise their prices even higher to compensate for what they deem to be a bad risk in accepting the shoemaker's IOUs at all.

Of course, this situation would correct itself rather quickly in a free market — i.e., a market with no government interference. At a very early stage, the community would realize what the shoemaker had been doing, and not only would stop accepting his IOUs but would demand that he make good on those he had already distributed. The result would be that he would have to go to work in order to produce enough wealth to pay off his debts.

When government becomes involved, however, it destroys the smooth workings of the marketplace. Government, in effect, not only legalizes the shoemaker's theft but

allows it to go on indefinitely. It accomplishes this by forcing everyone to use government IOUs (fiat currency) as money.

To make matters worse, when the shoemaker stops working, the government continues to print up fake receipts (i.e., paper "money") and gives the shoemaker a new supply of these receipts every week in the form of "unemployment compensation," food stamps, "retirement benefits" — even grants for special projects.

So, where does this leave the hatmaker, who accepted the government's receipt in good faith as payment for the hat he produced? It leaves him as just another victim of paper-money inflation. Which, of and by itself, would be bad enough.

Even worse, however, he knows absolutely nothing about government's money-printing policies, so he hasn't the vaguest idea why prices are rising all around him while he still has only one dollar. As a result, he's open to the most outrageous "solutions" offered up by vote-addicted politicians.

These politicians realize all too well that if they can convince voters to accept false solutions — solutions that are guaranteed to further *decrease* the value of the paper dollar — it will put them in a position to exert even more power over the citizenry.

The Magic of the Mysterious Multiplier

As I said, the hatmaker has no idea why prices are rising all around him while he still has only one dollar. As a result, he is willing to listen to the false solutions offered up by sloganeering politicians whose main objective is to win reelection.

The hatmaker is open to such meaningless babble as, "You and I together will go forward to change the country and change the world." Feeling shafted but having no idea who did it to him — or how — he is primed and ready to hear about "change." He is too naïve to translate "Yes we can" into "Yes, we can *screw you out of even more of your hard-earned money*."

The hatmaker does not understand that the cause of his woes is that every dollar the government printed up and arbitrarily passed out to his neighbors decreased the value of his dollar. All those newly printed paper dollars, with no wealth behind them, compete with the hatmaker's dollar for the available goods and services in the community. Again, as prices rise, the dollar the hatmaker was paid no longer has the purchasing power it had when he accepted it.

This is where the government would like you to believe that its mysterious-multiplier concept saves the day. Politicians use the multiplier con as an excuse to inject ever greater doses of socialism into society. This concept is based on the absurd notion that the laws of mathematics, economics, and common sense somehow change when one goes from small to large transactions.

While government successfully perpetrates the myth that as the population increases, problems become too complex for individuals to solve, the truth is quite

the opposite. In reality, the more complex problems become, the better they can be solved by individuals. And there's a good reason for this: self-interest. Plain and simple, an individual has his own well-being at stake.

Every person knows himself better than some bureaucrat in Washington who has never met him. An individual understands his own needs and desires, his own personality, his own special circumstances — none of which are exactly the same as those of his neighbors. The larger a society grows, the *less* capable government is of solving the problems of individuals. A clever slogan such as "shared change" really means *shared poverty*.

In addition to the mysterious-multiplier con, government works hard at trying to make voters believe that economic law can be suspended and that something can be created from nothing. The government would like people to believe that when money is taken from one group and handed to another, something greater results. Again, the exact opposite is true, for two reasons:

First, on the way from one group to another, a substantial portion of the confiscated wealth ends up in the hands of the government employees who administer the transfer-of-wealth programs. Second, there is a loss, not a gain, when wealth is confiscated. What is lost is the new technology, products, services, and jobs that could have been created with it.

The marketplace involves billions of individual transactions, of every conceivable kind, day in and day out. If a person can be led to believe that this maze of transactions is too complicated for private citizens to grasp, he can also be led to believe that inflation is an impossibly complex problem that only politicians and government intellectuals are capable of understanding. In this way, his attention is directed away from the one, real, and only cause of inflation: increasing the money supply.

Which brings us to government's deficit-spending habit — spending more than it can raise through taxation and the sale of government securities. Solution? Simply turn on the printing presses, and the money to cover the deficit can be created in no time. Presto! Problem gone.

(I should point out here that my references to printing money is partially a euphemism for creating money electronically — sort of a digital magic wand. But whether the fiat currency is in the form of paper or computer entries, the result is the same: Money that has no real value is created by government decree.)

Now you can see why it was so crucial for government to take monopolistic control of the country's money system and get off the gold standard as soon as possible. Once money was not tied to gold — once gold had become "old-fashioned" — government was free to print money in any quantity it desired.

Inflation to the Rescue

The practice of indiscriminately increasing the money supply gives politicians the ability to have their cake and eat it too. They are cautious about raising taxes too high for fear of inciting the masses. Liberal politicians, of course, like to talk about taxing the rich, which is deception at its worst. But when a tax on the rich is actually implemented, middle-class folks come out of their stupor and realize that *they* are considered to be rich by those same politicians.

Politicians also know that the surest way to get voted out of office is to vote for cutting back on entitlements. And since they realize there is a practical limit on how much they can tax people, the solution to their dilemma is inflation. Why? Because it's a *hidden* tax. By printing up enough paper "money" to cover the remainder of each year's deficit, conservative, anti-tax politicians, in particular, don't have to vote for a tax increase.

As the government's printing presses are put into high gear, individuals notice that prices are rising, but they don't understand why. As a result, not only do they not revolt, they take up the government's battle cry to "fight inflation."

At the urging of politicians, they believe they can "fight inflation" by pointing a guilty finger at all the wrong parties — Wall Street, big corporations, "fat-cat" executives, etc. Phrases like "obscene profits" and "fair share" become part of the fight-inflation lexicon. When Congress accuses others of causing inflation, it's tantamount to a bank robber shouting to a bunch of depositors, "The culprits went that way! Let's catch them and string them up!"

Of course, if market forces were allowed to prevail, a deflationary depression would quickly set in. Prices would plummet and the living standards of most people would dramatically decrease — in the *short term*. But within a year or so, the economy would begin to rapidly expand.

Though the average American doesn't want to hear about it, a deflationary depression is actually a good thing, because it cleanses the economy of artificially high wages, profligate spending, and malinvestment. In addition, some people would actually come out ahead, because, in a sense, a deflationary depression is a time when property is returned to its rightful owners.

Nevertheless, a deflationary depression is not likely to occur, because most politicians are too cowardly and corrupt to tell the public the truth. Worse, most of them are themselves ignorant of economic reality, which leaves an *inflationary* depression — caused by hyperinflation or, worse, runaway inflation — as the only option.

In a runaway-inflation scenario, commercial transactions become almost impossible to enter into, because people will not accept paper money in exchange for their goods and services. This untenable situation is likely to lead to social chaos and anarchy, which is the perfect excuse for establishing a dictatorship.

And because very few people understand the real cause of the problem, the move toward a dictatorship actually begins to look appealing to them. Adolf Hitler's rise to power in Germany's Weimar Republic is the best-known example of how such a scenario can unfold even in a civilized Western country.

The Allure of Deficit Spending

The hidden inflation tax allows the government to continue its politically expedient redistribution-of-wealth policies and a huge number of non-wealth-producing programs with virtually no constraints. Unfortunately, in the early stages of a prolonged inflation, most people are fooled into thinking that government has "stimulated the economy," because the media is complicit in relaying this message from the politicians who fill their airtime.

Sadly, many economists still believe in the Keynesian philosophy that inflation of the currency increases employment and production and improves the health of the economy. They not only ignore the long-term effects of inflation, as well as its moral implications (fraud and theft), they also are naive enough to believe that politicians will stop increasing the money supply once the economy is again "healthy."

There are many fallacies in such thinking, a few of the more obvious ones being:

1. The inflation "spiral" causes voters to continue to clamor for ever-higher wages and more government benefits in order to "keep up."
2. The obsession with getting reelected motivates politicians to satisfy voter demands, which means more inflation of the currency, which, in turn, leads to still higher prices.
3. Since the economy is, to a great extent, artificial (in that it is supported by deficit spending and valued in paper dollars), it is only a matter of time until the laws of economics set in — meaning higher prices and lower purchasing power, which, in turn, leads to less production. And less production, in turn, leads to still higher prices and greater unemployment.

Nevertheless, from a politician's point of view, deficit spending creates short-term, albeit artificial, prosperity, designed to win votes. It can take a year or two for prices to rise enough to make voters angry, but by that time the next election is over.

In the days of yore, when deficit spending was merely a pre-election scheme, the new administration would cut back on spending once the election was over. This, however, is no longer possible, because voters are addicted to government benefits and do not want to hear about cutbacks. As government employees in such states as Indiana, Wisconsin, Illinois, and Ohio so clearly demonstrated, many people are prepared to resort to violence if their demands are not met.

Which is why all left-wing politicians — as well as some conservatives — continue to insist that health care is a right. Of course, what guaranteed health care really means is guaranteeing that there will be an increase in fiat currency.

One of the things that commonly confuses people who try to understand what inflation is all about is that, theoretically, the quantity of paper money in circulation makes no difference. That is to say, if the government handed everyone double the amount of money he now has, prices and wages would roughly double in a short period of time, and no one would be any worse off.

Likewise, if government took 50 percent of the currency out of circulation, prices and wages generally would fall by 50 percent, and no one would be hurt.

But that is *not* what happens with an artificial increase in the supply of paper currency. The reality is that everyone does not receive a proportionate percentage of the newly created "money." And those who are among the first to receive the newly created dollars stand to gain the most from them, because they can spend their dollars before prices dramatically increase.

The big losers are those who are last to receive the newly created currency. Meaning that they are the ones who are taxed the most — *invisibly*. This is so because by the time the new money circulates to them, prices have already risen considerably. Thus, those who are at the bottom of the inflationary spiral become the chief victims of the fraud that has been perpetrated by Washington.

Not surprisingly, the individuals who get caught at the bottom of the spiral demand that their wages be increased in order to "keep up." And when their wages are increased, prices increase even more. This is why it is referred to as an *inflationary spiral*.

Keep in mind, however, that these increased wages do *not* cause an increase in prices. The real cause is the increase in the money supply, which decreases everyone's purchasing power, thus the need for higher wages to keep up with rising prices.

Above all, never lose sight of the fact that the cause of our constantly increasing money supply is *an increase in government spending*. And most of the presidential candidates, either explicitly or implicitly, make it clear that this suicidal practice will continue unabated.

Which leaves me with a message for the supposedly anti-big-government conservatives in Congress: If you are truly cut from a different cloth than the Democratic faction of the Demopublican Party, the next time you run for reelection, please be *specific* about which government entitlement programs you are planning to reduce — or, better yet, *eliminate.* You may be surprised to find that it gets you reelected, because an increasing number of Americans are finally ready to hear the painful truth.

Be Careful What You Wish For

When, during the 2008 presidential campaign, Barack Obama occasionally slipped and said something specific about what he intended to do when he seized control of the reins of power, people should have paid attention. Take, for example, "I believe health care is a right, not a privilege." As soon as he made that statement, I no longer saw him as nothing more than a shiftless community organizer who was in over his head.

When someone starts manufacturing rights for people, I pay attention because it means he wants to play God. It's the old desires-to-needs-to rights game, which is played like this: If I have a desire for a new car, that's my business. But if, through some Orwellian malfunction of my brain, I proclaim my desire to be a "need," that's when it starts threatening to become *your* business.

Now all I have to do is convince enough populist politicians that my newfound "need" is a "right," and I'm on my way to having it fulfilled — without having to earn it. Of course, the fact that I refer to my desire as either a "need" or a "right" is pure poppycock. I may just as well call it a *wart*.

No matter what word I assign to it, it doesn't give me a license to force you to help me acquire it just because I happen to want it. Whether it's a car, a house, a "minimum wage," education for my children, or health care, the principle remains the same: It's okay for me to desire any or all of these things, but I don't have a *right* to them. More specifically, I don't have a right to force you, through government coercion or any other means, to give them to me.

The unvarnished truth is that the only rights you have are the natural rights you inherited at birth — specifically, the right to life, liberty, and the pursuit of happiness. All other rights are but a figment of the imaginations of progressive minds — especially those of politicians. And the only way to enforce those artificial rights is by violating the rights of others.

I don't believe that Barack Obama is out to do evil, but that's of little consequence. Ignorant people have been known to lead revolutions. Giving him the benefit of the doubt, Obama apparently believes he has been divinely anointed to grant certain rights to those he deems to be worthy — rights that *you* are forced to pay for.

And much of the payment for these artificial rights is by way of a hidden tax — i.e., by increasing the money supply. Which is why most people can expect to experience a great deal of pain as a result of a rapid decrease in their purchasing power. And when people are in pain, morals and rational thinking become disposable commodities.

"Change" and Dictatorship

History teaches us that as people's desires (under the guise of "rights") fail to be met, they tend to panic and, ultimately, deprivation panic can turn to violence. And,

as the situation deteriorates, either the existing government steps in and imposes martial law or a new government arises to suppress the chaos.

Unfortunately, there is overwhelming historical evidence that when social order breaks down — when anarchy and pandemonium reign — both citizens and elected officials not only yield to dictatorial power, but welcome it. Comments to that effect were all too common during the Great Depression.

Alf Landon, governor of Kansas at the time, opined that "Even the iron hand of a national dictator is in preference to a paralytic stroke." Senator David Reed of Pennsylvania was more specific when he said, "If this country ever needed a Mussolini, it needs one now."

This kind of thinking is precisely what brought Franklin D. Roosevelt to power. His near-dictatorial reach encompassed an expansion of the federal government not dreamed possible just a few years earlier. The same scenario has been replayed time and again through the centuries. History repeats itself not only because human nature genetically repeats itself generation after generation, but because the masses possess a superb ability to ignore the lessons of the past.

Which is a good thing for politicians because it allows them to keep recycling the same old ideas that have brought about so much human suffering in the past. A significant portion of the duped American electorate now realizes that the change Barack Obama was talking about during his 2008 campaign meant changing *back* to the economy-killing, redistributionist system that has been tried over and over again throughout history — *with a 100 percent failure rate*.

As the great Thomas Sowell has said, "Everything is new if you are ignorant of history. That is why ideas that have failed repeatedly in centuries past reappear again, under the banner of 'change,' to dazzle people and sweep them off their feet."

Austrian economist and Nobel laureate F. A. Hayek explained man's stubborn attraction to self-deception this way: "It seems almost as if we did not want to understand the development which has produced totalitarianism because such an understanding might destroy some of the dearest illusions to which we are determined to cling."

Of course, most Americans don't believe that a dictatorship is possible in the land of the free and the home of the brave, just as their counterparts in Germany refused to believe it nearly a century ago.

To those who doubt Obama's ability to continue fooling people into believing that he's America's savior while at the same time advocating a Marxist agenda, I offer the words of the great Will Durant, who said, "It may be true ... that 'you can't fool all the people all the time,' but you can fool enough of them to rule a large country."

An Inconvenient Truth

Even if Barack Obama is voted out of office, whoever ends up in the White House will inherit an America that cannot be fixed without inducing the kind of pain that could be the catalyst for a revolution.

The unspoken reality that no one wants to face up to — certainly no politician — is that it's impossible for America to right its financial ship so long as American workers are overpaid. How can I make such a blasphemous statement?

Because so long as there are workers in other countries who are willing to do the same jobs as Americans at a fraction of their wages, that means, by definition, that American workers are overpaid. It is a self-evident truth that guarantees American workers cannot continue to live like spoiled children.

Reality check: Do you really believe that any president is going to get on national television and tell Mr. and Mrs. America — just ten years away from retiring to a golfing community in Florida — that they have to work harder and longer and be prepared to dramatically lower their living standards?

The unpopular truth is that whoever is in the Oval Office at any given time cannot do much to stop America's free fall. And since working-class Americans are not willing to work harder, longer hours for much less pay, the only way out is inflation of our already crippled currency. Inflation encourages a free-for-all attitude among individuals and special-interest groups whose aim is to get more of the government spoils than their neighbors.

Legendary economist Henry Hazlitt stated it in crystal-clear terms when he said that inflation fosters "the illusion in the great majority of voters that they will somehow get the better of the swindle and profit at the expense of a few unidentified victims."

Having said all this, I feel obliged to tell you that I told my readers in the early 1980s that runaway inflation was a near-term certainty. But, to my surprise, I was wrong, mostly because I failed to heed Harry Browne's words of wisdom.

What Browne said was that short-term predictions are tricky, because there are an infinite number of factors at play that can change or forestall events dramatically. A good example of this was 9/11, which led not to one war, but two. War, in fact, is one of the favorite methods used by politicians to divert the public's attention from impending economic doom.

Most important, Browne pointed out that the government has two lethal tools at its disposal — printing presses and a monopoly on the use of force — that give it unique powers to manipulate events and delay consequences. Do you think you could keep *your* failing enterprise from going under if you were allowed to print money and use force against your customers and your competitors?

Today, however, I realize that there were at least two additional factors that forestalled the runaway inflation I predicted in the early 1980s, factors that I don't recall Harry ever mentioning.

The first factor was the explosion of entrepreneurial technology that not only made many products much less expensive than they otherwise would have been, but also made life better and easier even for people in the lowest income brackets.

The second factor was the unlikely arrival of Ronald Reagan on his white steed, showcasing his ability to motivate Americans. Unbeknownst to the average citizen, many of Ronald Reagan's policies were actually quite liberal (at least by my standards), but the contrary perception was enough to keep intact the most important aspect of a nation's false prosperity: faith and optimism.

But that was then, and this is now. Today, mainstream pundits are starting to say many of the same things I was saying in the late seventies and early eighties. And, unfortunately, the so-called solutions that Barack Obama and his congressional allies keep forcing down our throats will continue to make matters worse. The dramatically increased spending we have witnessed over the past ten years (and especially the last three years) is certain to hasten the arrival of Financial Judgment Day.

The truth of the matter is that for many years we experienced what I refer to as an "invisible depression," a depression camouflaged for the most part by easy credit. But since 2007, it's become ever more difficult for politicians to hide the truth, the result being that the invisible depression is becoming more visible every day. And it is this visibility that will continue to motivate politicians to accelerate an increase in the money supply, which will ultimately lead to hyper or runaway inflation.

Even if Republicans regain power in 2013, the long-term consequences are already written in stone. Remember, Republicans only talk about slowing the *growth* of entitlements, not putting an end to them.

The continued onslaught of fiat paper money disrupts the market and causes confusion, apprehension, and, eventually, panic. People are afraid to enter into long-term agreements because they have no idea what money will be worth in the future. Businessmen decrease investments in new plants and equipment, because they do not know if their real profits will be worth the risk. The latter causes shortages, which leads to ever higher prices.

If inflation is not eventually curtailed, a final collapse of the economy begins when people start to guess at what future prices will be. This sets off a chain reaction where sellers increase prices even faster than the supply of money increases; i.e., panic eventually pushes prices up faster than government's inflation of the currency.

At that point, government faces its last chance to avoid a total collapse of the economy. Again, Henry Hazlitt put it well when he said, "Every inflation must eventually be ended by government or it must 'self-destruct.'"

This self-destruction is what has doomed many powerful nations throughout history. If you doubt the consequences of a policy of continued inflation of a country's currency, consider these figures from Germany's runaway inflation in 1923:

Between 1914 and 1923, the German government issued an additional 92.8 quintillion (92,800,000,000,000,000,000) paper marks, a 245 billionfold increase in the money supply. Prices, in turn, rose 1.38 trillionfold. Interest rates rose as high as 10,000 percent per annum on some debt instruments.

As you would guess, people eventually refused to accept paper money in exchange for goods and services. The economy collapsed and chaos and crime ensued. And waiting in the wings, preparing hysterical answers for hysterical people, was Adolf Hitler, a man who understood all too well that only an authoritarian police state could restore order.

While the far-left would like us to believe it is greedy business people who have caused our pain, the truth is that it is American entrepreneurs who have held up the U.S. economy all these years by doing what they have always done best: create wealth. It is they, not the government, who create jobs and increase living standards. But if Obama and his congressional allies continue to press the welfare pedal to the floor, America's entrepreneurial spirit ultimately will be crushed.

More than fifty years ago, Ayn Rand explained what would happen if Atlas ever decided to shrug and vanish, but, unfortunately, most people waved her aside as an extremist. Today, however, Rand looks like a twentieth century Nostradamus, as entrepreneurs are increasingly thinking about exit strategies.

Of course, there is an alternative to expatriation. You can dig in your heels, do everything you can to protect your assets, and join in the fight to spread the truth — about inflation, about the true motivation of corrupt politicians, and, above all, about the sanctity of liberty. In other words, do what *you* can do to educate others about our founding principles and what has to be done to return the United States to a nation based on its original Constitution.

A final word of caution: If you choose to stay and fight, don't think in terms of overnight victory. It won't happen. In fact, there is no such thing as total victory. The story of the human race is told in the ebb and flow of liberty and tyranny. Just as communists are wrong to believe they can change human nature and "convince" people to willingly give up their freedom and their property, so, too, is it a mistake for defenders of liberty to believe they can convince those who worship big government to believe in freedom.

In the meantime, make your financial plans according to a worst-case scenario — a possible runaway inflation that could rob you of both your wealth and your freedom. And, toward that end, do now allow politicians or the media to deceive you about the root cause of inflation — *increasing the supply of paper (or electronic) money.*

Financial Judgment Day is a certainty. The only questions are: (1) When will it arrive and (2) what you are going to do to prepare for it?